

Message Text

CONFIDENTIAL

PAGE 01 NAIROB 04900 01 OF 02 310702Z
ACTION EB-08

INFO OCT-01 AF-10 ISO-00 AGRE-00 AID-05 CIAE-00
COME-00 FRB-03 INR-10 NSAE-00 USIA-06 TRSE-00
XMB-02 OPIC-03 SP-02 LAB-04 SIL-01 OMB-01 L-03
/059 W

-----054493 310720Z /10

R 301410Z MAR 78
FM AMEMBASSY NAIROBI
TO SECSTATE WASHDC 6334
INFO AMEMBASSY ANTANANARIVO
AMEMBASSY PORT LOUIS
AMEMBASSY LIBREVILLE
AMEMBASSY DAKAR
AMEMBASSY KHARTOUM

C O N F I D E N T I A L SECTION 1 OF 2 NAIROBI 4900

EO 11652: GDS
TAGS: EFIN, MA, MP, GB, KE, SG, SU

SUBJECT: N-REN FERTILIZER PLANT IN KENYA

1. SUMMARY: N-REN IS JOINT VENTURE PARTNER WITH GOK IN
62 MILLION DOLLAR, 220 THOUSAND TON ANNUAL OUTPUT FERTILIZER
PLANT IN WHICH N-REN HOLDS 35 PERCENT OF EQUITY. PLANT
CONSTRUCTION BEGAN IN 1975 BUT PROJECT HAS BEEN PLAGUED
WITH 8 MILLION DOLLAR COST OVERRUNS ON SITE PREPARATION
AND INEFFECTIVE MANAGEMENT. BY MID-1977 WORKING CAPITAL
WAS EXHAUSTED TO MEET COST OVERRUNS AND N-REN AGREED TO
REPLACE MANAGING DIRECTOR OF LOCAL COMPANY (AN N-REN U.S.
EMPLOYEE). GOK APPOINTED COMMITTEE TO INVESTIGATE PROJECT'S
DIFFICULTIES WHICH BLAMED FINANCIAL PROBLEM ON POOR MANAGE-
MENT AND RECOMMENDED EQUITE INCREASE TO MEET FINANCIAL SHORT-
FALL. GOK FAVORS THIS RECOMMENDATION BUT N-REN OPPOSED
PREFERRING SHORT TERM BORROWING. WHILE BOTH PARTNERS
MUST SHARE RESPONSIBILITY FOR PROJECT'S PROBLEMS, IT
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 NAIROB 04900 01 OF 02 310702Z

IS OBVIOUS THAT N-REN MANAGEMENT WAS LOPPY AND DEFICIENT
IN NOT QUESTIONING AND TAKING ACTION ON COST OVERRUNS
OF SUCH A MAGNITUDE. IF FINANCING STRATEGY ACCEPTABLE
TO BOTH PARTNERS CAN BE DEvised, IT APPEARS LIKELY THAT
PROJECT WILL CONTINUE. HOWEVER, N-REN PERFORMANCE TO
DATE CASTS DOUBT ON ITS ABILITY TO MANAGE EFFECTIVELY
PROJECT OF THIS SIZE. END SUMMARY.

2. IN APRIL 1975 N-REN SIGNED A JOINT VENTURE AGREEMENT WITH THE GOK FOR CONSTRUCTION AND OPERATION OF 62 MILLION DOLLAR FERTILIZER PLANT TO BE LOCATED IN MOMBASSA, UNDER THE LOCAL NAME OF KEN-REN. EQUITY INVESTMENT IN PROJECT TOTALLED 19 MILLION DOLLARS OF WHICH N-REN CONTRIBUTED 35 PERCENT AND GOK THE REMAINDER. REMAINING INVESTMENT IN THE FORM OF SUPPLIERS CREDITS AND 2.6 MILLION DOLLAR N-REN LOAN. PROJECT PLANNED TO INCLUDE 190 SG/DAY AMMONIA PLANT, 250 ST/DAY NITRIC ACID PLANT, AND 725 ST/DAY NPK/COMPOUNDS PLANT. EVENTUAL ANNUAL OUTPUT PROJECTED AT 220 THOUSAND TONS WHICH WOULD MORE THAN MEET DOMESTIC CONSUMPTION ESTIMATED AT 165 THOUSAND TONS. SINCE FERTILIZER IMPORT BUSINESS IN THE HANDS OF SOME HIGHLY PLACED KENYANS, KEY ELEMENTS OF AGREEMENT WERE GOK GRANT OF EXCLUSIVE CONTROL OF FERTILIZER IMPORTS TO KEN-REN TO COMMENCE 12 MONTHS PRIOR TO PLANT STARTUP, CONTINUING FOR 10 YEAR PERIOD, AND GRANT TO N-REN FOR EXCLUSIVE SUPPLY OF IMPORTED INPUTS. MONOPOLY POSITION AND EARLY REPAYMENT OF FRONT-END COSTS GIVES N-REN MORE THAN ADEQUATE PROTECTION AND RETURN ON ITS INVESTMENT.

3. FROM BEGINNING PROJECT WAS PALGUED WITH VARIOUS DIFFICULTIES. GOK HAD PROMISED PLANT SITE LOCATED WITHIN MOMBASSA PORT BOUNDARIES (TO REDUCE TRANSPORTATION COSTS OF IMPORTED INPUTS AND DISTRIBUTION OF PLANT

CONFIDENTIAL

CONFIDENTIAL

PAGE 03 NAIROB 04900 01 OF 02 310702Z

OUTPUT). GOK, HOWEVER, REVERSED ITSELF AND GRANTED PROJECT PLANT SITE OUTSIDE OF PORT ON A HILL WHICH ESSENTIALLY HAD TO BE LEVELED BEFORE PLANT CONSTRUCTION COULD BEGIN. ACCORDING TO N-REN OFFICIALS, PREPARATION OF NEW SITE ADDED SIGNIFICANTLY TO PLANT CONSTRUCTION COST OVERRUNS. INCREASED COST ORIGINALLY ESTIMATED AT 250 THOUSAND DOLLARS BUT BY SPRING OF 1977 HAD REACHED AN INCREDIBLE 8 MILLION DOLLARS. BY MID-1977 PROJECT AHD DEVELOPED SIGNIFICANT CASH FLOW DIFFICULTIES. IN ORDER TO MEET CONSTRUCTION COST OVERRUNS, WORKING CAPITAL WAS RUN DOWN AND COMPANY WAS ESSENTIALLY BORKE.

4. IN ADDITION, PERSONALITY PROBLEMS DEVELOPED BETWEEN KEN-REN'S MANAGING DIRECTOR (U.S. CITIZEN N-REN EMPLOYEE) AND SECRETARY OF BOARD OF DIRECTORS APPOINTED BY GOK. CONTROVZRSY ALSO DEVELOPED OVER PLANT STARTUP DATE WHICH WAS CRITICAL IN DETERMINING WHEN KEN-REN WOULD OBTAIN EFFECTIVZ CONTROL OF IMPORTS AND BE ABLE TO REDUCE ABILITY OF IMPORTERS TO STOCK PILE. UPSHOT OF THIS CONFLICT WAS THAT N-REN AGREED TO REPLACE MANAGING DIRECTOR AND GOK, IN JULY 1977, SUMMARILY FORCED THE MANAGING DIRECTOR TO LEAVE THE COUNTRY (FYI: GOK DID

NOT FORMALLY EXPEL MANAGING DIRECTOR BUT EXERTED VARIOUS PRESSURES WHICH CONVINCED HIM THAT HIS QUICK DEPARTURE FROM KENYA WOULD BE ADVISABLE. END FYI). GOK THEN APPOINTED INTER-MINISTERIAL COMMITTEE TO INVESTIGATE PROJECT'S FINANCIAL AND MANAGEMENT PROBLEMS. IN AUGUST 1977 CONVERSATION WITH ECONOMIC COUNSELRO, TREASURY PERMSEC (WHO IS CHAIRMAN OF KEN-REN BOARD) SAID GOK HAD SERIOUS PROBLEMS WITH N-REN'S FINANCIAL AND TECHNICAL MANAGEMENT OF THE PROJECT. HE ASKED AT THAT TIME THAT USG (I.E., OPIC) DELAY ANY ACTION ON PROJECT UNTIL GOK HAD RESOLVED QUESTION OF CONTINUED PARTICIPATION WITH N-REN.
LE MELLE

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 NAIROB 04900 02 OF 02 310617Z
ACTION EB-08

INFO OCT-01 AF-10 ISO-00 AGRE-00 AID-05 CIAE-00
COME-00 FRB-03 INR-10 NSAE-00 USIA-06 TRSE-00
XMB-02 OPIC-03 SP-02 LAB-04 SIL-01 OMB-01 L-03
/059 W

-----054117 310720Z /10

R 301410Z MAR 78
FM AMEMBASSY NAIROBI
TO SECSTATE WASHDC 6335
INFO AMEMBASSY ANTANANARIVO
AMEMBASSY PORT LOUIS
AMEMBASSY LIBREVILLE
AMEMBASSY DAKAR
AMEMBASSY KHARTOUM

C O N F I D E N T I A L SECTION 2 OF 2 NAIROBI 4900

5. COMMITTEE REPORT, WHICH WAS DISCUSSED AT KEN-REN BOARD MEETING IN NOVEMBER, BLAMED FINANCIAL PROBLEMS OF PROJECT ON POOR MANAGEMENT BY N-REN APPOINTED MANAGING DIRECTOR. N-REN OFFICIALS WHO ATTENDED BOARD MEETING SAID COMMITTEE IGNORED COMPLETELY HUGE COSTOVERRUNS WHICH N-REN ASSOCIATED WITH THE SITE PREPARATION. COMMITTEE RECOMMENDATION, WHICH WAS FAVORED BY THE GOK, WAS TO INCREASE EQUITY TO MEET PROJECT'S FINANCIAL NEEDS. N-REN OFFICIALS WERE OPPOSED TO THIS TRAATEGY, FAVORING LOCAL SHORT-TERM BORROWING TO COVER PERIOD UNTIL PLANT CAME ON STREAM. N-REN TOLD EMBOFFS THAT IT WAS NOT PREPARED TO PUT MORE OF ITS FUNDS INTO PROJECT AND AN

INCREASE IN THE GOK EQUITY SHARE WOULD REDUCE N-REN'S
POWE ON THE BOARD TO UNACCEPTABLY LOW LEVELS.

6. A NEW MANAGING DIRECTOR HAS BEEN SELECTED BY N-REN
AND APPROVED BY THE KEN-REN BOARD OF DIRECTORS AND THE
GOK HAS INFORMED N-REN THAT IT IS COMMITTED TO CONINUING
THE PROJECT IN PARTNERSHIP WITH N-REN. HOWEVER, QUESTION
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 NAIROB 04900 02 OF 02 310617Z

OF FINANCING CASH SHORT-FALL IS STILL UNRESOLVED AND
AS FAR AS WE KNOW WORK ON PROJECT HAS BEEN SUSPENDED.

7. COMMENT: IT IS DIFFICULT TO SORT OUT WHERE THE
MAJOR FAULD FOR PROJECT'S DIFFICULTIES SHOULD BE PLACED,
BUT IT IS CLEAR THAT BOTH PARTNERS MUST SHARE RESPONSI-
BILITY. GOK SELECTION OF SITE DIFFERENT FROM ORIGINAL
PROPOSAL CERTAINLY ADDED TO PROJECT COSTS, BUT 8 MILLION
DOLLAR INCREASE IN SITE PREPARATION IS UNREASONABLY HIGH.
ON-SITE MANAGEMENT'S INABILITY TO EXERCISE GREATER
CONTROL OVER OVERRUNS CAN ONLY BE DESCRIBED AS SLOPPY
(AT BEST). N-REN FINANCIAL MANAGEMENT WAS SERIOUSLY
DEFICIENT FOR FAILING TO RECOGNIZE THE IMPACT OF AN
OVERRUN OF THAT MAGNITED AND FOR ACCEPTING THE
EXPLANATION OF THE OVERRUN, APPARENTLY WITHOUT
SERIOUS QUESTION. AT THE VERY LEAST, N-REN FAILED
TO ADOPT APPROPRIATE STRATEGIES TO MEET VASTLY
INCREASED FINANCIAL BURDEN. CONFUSTION WITHIN GOK
OVER WHICH MINISTRY WAS ULTIMATELY RESPONSIBLE FOR
PROJECT (MINISTRY RESPONSIBILITY BETWEEN AGRICULTURE
AND TREASURY WAS NEVER FIRMLY SETTLED) ADDED TO MANAGE-
MENT DIFFICULTIES EXPERIENCED BY N-REN. ALSO, YOUNG,
AGGRESSIVE MANAGING DIRECTOR ORIGNIALLY ASSIGNED BY
N-REN APPARENTLY LACKED EXPERIENCE TO DEAL EFFECTIVELY
WIT HIS MORE CAUTIOUS KENYAN COLLEAGUES.

8. IF FINANCIAL PROBLEM CAN BE RESOLVED TO SATISFACTION
OF BOTH PARTIES, IT APPEARS AT THIS TIME THAT PROJECT
WILL GO FORWARD AS PLANNED. MANAGING DIRECTOR-DESIGNATE
BELIEVES HE HAS ESTABLISHED GOOD PROFESSIONAL RELA-
TIONSHIP WITH BOARD SECRETARY AND THAT PERSONALITY
PROBLEMS EXPERIENCED BY HIS PREDECESSOR, WHICH CREATED
MANAGEMENT DIFFICULTIES, ARE NO LONGER PRESENT. HOWEVER,
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 NAIROB 04900 02 OF 02 310617Z

POOR MANAGERIAL PERFORMANCE ON N-REN TO DATE RAISES
DOUBTS (SAHRED BY GOK) ABOUT THE COMPANY'S ABILITY TO

MANAGE EFFECTIVELY A PROJECT OF THIS MAGNITUDE.
LE MELLE

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: FERTILIZERS, JOINT VENTURES
Control Number: n/a
Copy: SINGLE
Draft Date: 30 mar 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978NAIROB04900
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D780139-0916
Format: TEL
From: NAIROBI
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t1978039/aaaaagxj.tel
Line Count: 226
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 78d50fcb-c288-dd11-92da-001cc4696bcc
Office: ACTION EB
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 27 apr 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3393257
Secure: OPEN
Status: NATIVE
Subject: N-REN FERTILIZER PLANT IN KENYA
TAGS: EFIN, MA, MP, GB, KE, SG, SU
To: STATE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/78d50fcb-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014